

Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

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CIBT Education Group Inc. (TSX: MBA; OTC: MBAIF) – Aggressively Building a Portfolio of Student Housing Projects to Enhance Earnings Potential

Sector/Industry: Education Services

www.cibt.net

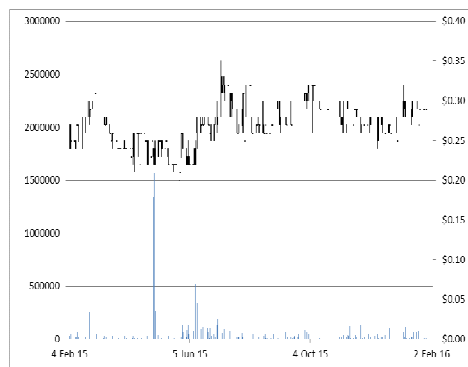
Market Data (as of February 3, 2016)

Current Price	C\$0.28
Fair Value	C\$0.76
Rating*	BUY
Risk*	3
52 Week Range	C\$0.20 - C\$0.35
Shares O/S	68.83 mm
Market Cap	C\$19.27 mm
Current Yield	N/A
P/E (forward)	4.3x
P/B	0.9x
YoY Return	16.7%
YoY TSX	-16.4%

*See back of report for rating and risk definitions

Investment Highlights

- Since our last report on CIBT Education Group (“CIBT”, “company”) in July 2014, the company has made significant progress on its student housing projects.
- The company, along with third-party investment partners, acquired two operating hotels in downtown Vancouver in 2015, with the objective of converting the two hotels to student housing. They are also developing / constructing other projects within the Greater Vancouver Area. Management expects to have approximately 1,000 beds from five projects by the fall of 2016.
- The outlook on affordable student housing projects in the Greater Vancouver area is very positive.
- Management’s goal over the next five years is to build a portfolio of stable cash flow generating student housing projects offering approximately 10,000 beds for a total projected valuation of \$1 billion.
- Exit strategy is to potentially sell the portfolio to institutional investors, or spin off the assets via an Initial Public Offering (“IPO”) to generate long-term returns for CIBT shareholders.
- We are reinitiating coverage on CIBT with a BUY rating and a fair value estimate of \$0.76 per share.



Key Financial Data

(in C\$); YE - Aug 31	2014	2015	2016	2017
Revenues	30,916,154	32,178,951	38,101,887	44,967,410
EBITDA	(1,183,601)	691,627	3,965,761	7,987,877
EBITDA Margin	-3.8%	2.1%	10.4%	17.8%
Net Income	5,312,961	6,000,774	5,447,286	3,158,709
EPS (Basic)	0.08	0.09	0.08	0.05
Debt to Capital	14.1%	44.0%	62.0%	69.9%
ROE	27.8%	20.1%	20.7%	9.7%

*The net profit / loss figures include CIBT's share of the net profit / loss and non-controlling interests.

Global Education City (GEC)

Global Education City Holdings Inc. (“GEC”), launched in 2013, is the company’s student housing division. The increasing number of international students, and the high-demand for affordable student housing in Vancouver, prompted the company to move into this space, and capitalize on their over 21 years of experience in Education Management. The company’s Education Management division owns Sprott Shaw College, which is one of the largest private post-secondary institutions in Western Canada. The company also has over 21 years of experience offering programs to international students. They are also in the business of providing recruitment services to international students wishing to undergo education in North America. These capabilities, we believe, offer CIBT a strong platform to attract tenants to their student housing projects.

The following, we believe, are the key attractive features of student housing projects in the Greater Vancouver area:

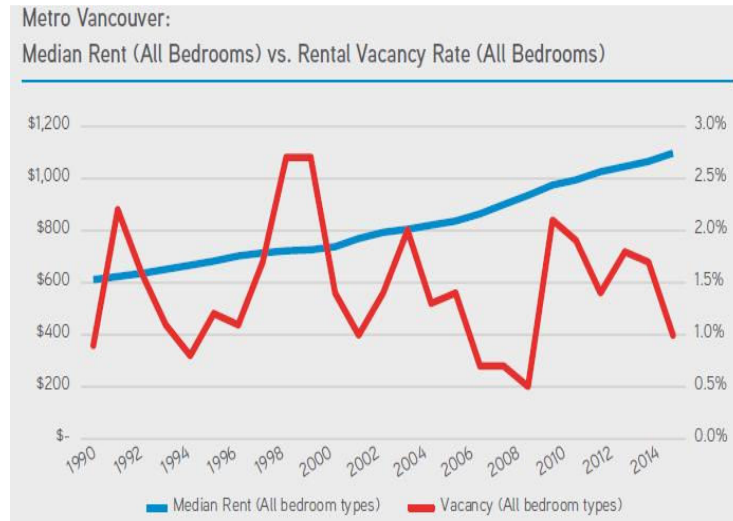
- Student housing projects generate higher rent per sq. ft compared to other forms of real estate, and valuations of rental properties are at record levels in Vancouver.
- According to the City of Vancouver, Vancouver has the tightest rental market and one of the lowest vacancy rates in the country. The vacancy rate averaged 0.9% in the past three years (Source: The City of Vancouver). As shown in the chart below, “Millennials” (aged 18 to 34) in the city grew from 480,000 in 1990, to 625,000 people by 2014, while total rental apartments decreased from 111,000 units to 106,000 units in the same time period.

Metro Vancouver: Millennial Age Group vs. Total Rental Apartments



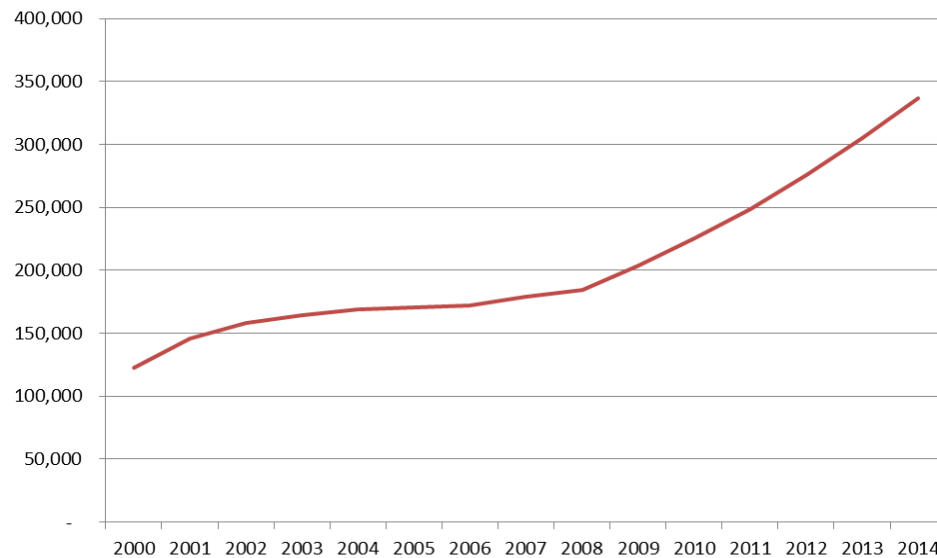
Source: Colliers

Apartment rents (all types) per month in Metro Vancouver increased from \$753 in 1990, to \$1,317 in 2014. Vacancy rates ranged between 0.7% and 3.4% during the same time period, and are currently at approximately 1%.



Source: Colliers

- The number of international students in Canada grew at 7.5% p.a. from 2000 to 336,497 in 2014.



Source: Canada Immigration & Citizenship

- Growing population, and limited increases in income and supply of new rental housing in the city have resulted in a strong demand for low and moderate cost rental units.

CIBT’s business plan is to partner with third-party investors to jointly acquire (using a Limited Partnership structure) operating assets or develop / construct student housing projects. **CIBT generates revenues by charging an upfront structuring fee of approximately \$1 - \$2 million, and an ongoing annual management fee of**

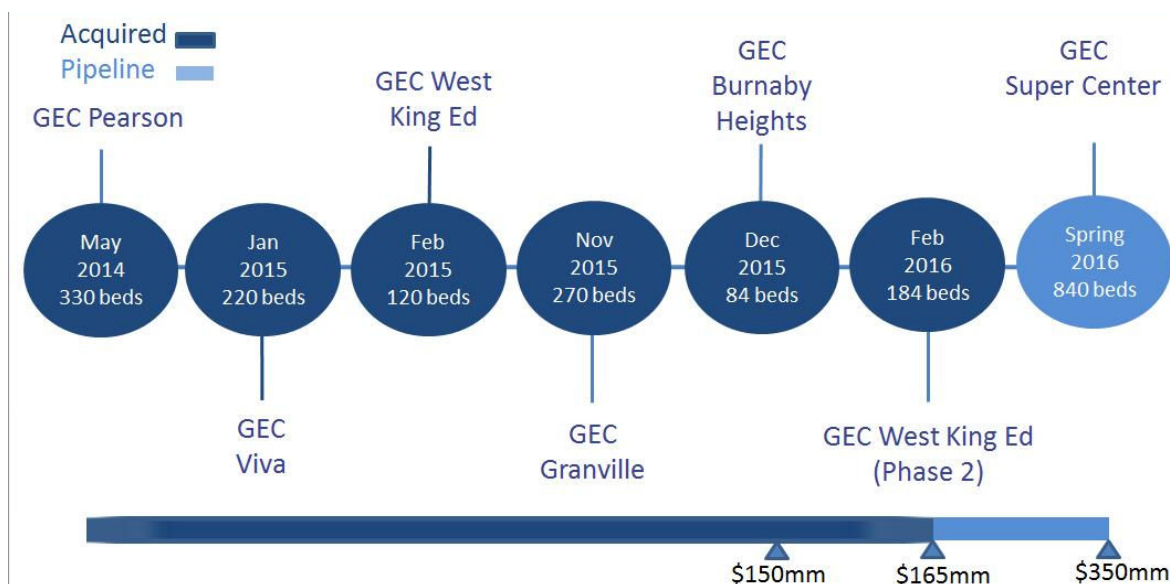
Projects

approximately 8% of the gross income to the Limited Partnerships. CIBT will use the structuring fee to earn up to 25% equity in each project. In their transactions so far, CIBT has been able to negotiate a price for their equity investment, offering them the potential to achieve significantly high Return on Investments (“ROI”). According to management, their target rental yield per project is approximately 12% - 15% p.a., and the total ROI upon exit within 2 – 3 years is over 100%.

Management’s goal over the next five years is to build a portfolio of student housing projects offering 10,000 beds for a total projected valuation of \$1 billion. Their strategy is to build a portfolio of stable cash flowing assets and potentially sell to institutional investors, or spin off the assets via an Initial Public Offering (“IPO”) to generate long-term returns for CIBT shareholders.

CIBT’s management has an excellent track record of growing through acquisitions. Management grew revenues from just \$4.75 million in 2001, to \$58.58 million by 2011, reflecting a CAGR of 29%. CIBT acquired Sprott Shaw College (“SSC”) for \$12 million in 2007, and King George International College (“KGIC”) for \$4.3 million in 2010, which was subsequently sold in 2013 for \$13.5 million. In December 2015, the company signed an agreement to sell Ascenda School of Management (“ASM”), which is a spin-off of Sprott Shaw’s business degree programs, for \$5 million. ASM was acquired for approximately \$1 million in 2007. Ascenda has 160 students, and generated \$2.8 million in revenues and \$0.29 million in EBITDA in FY2015.

The following chart shows the acquisitions made by CIBT, and its partners, via Limited Partnership arrangements, over the past 18 months.

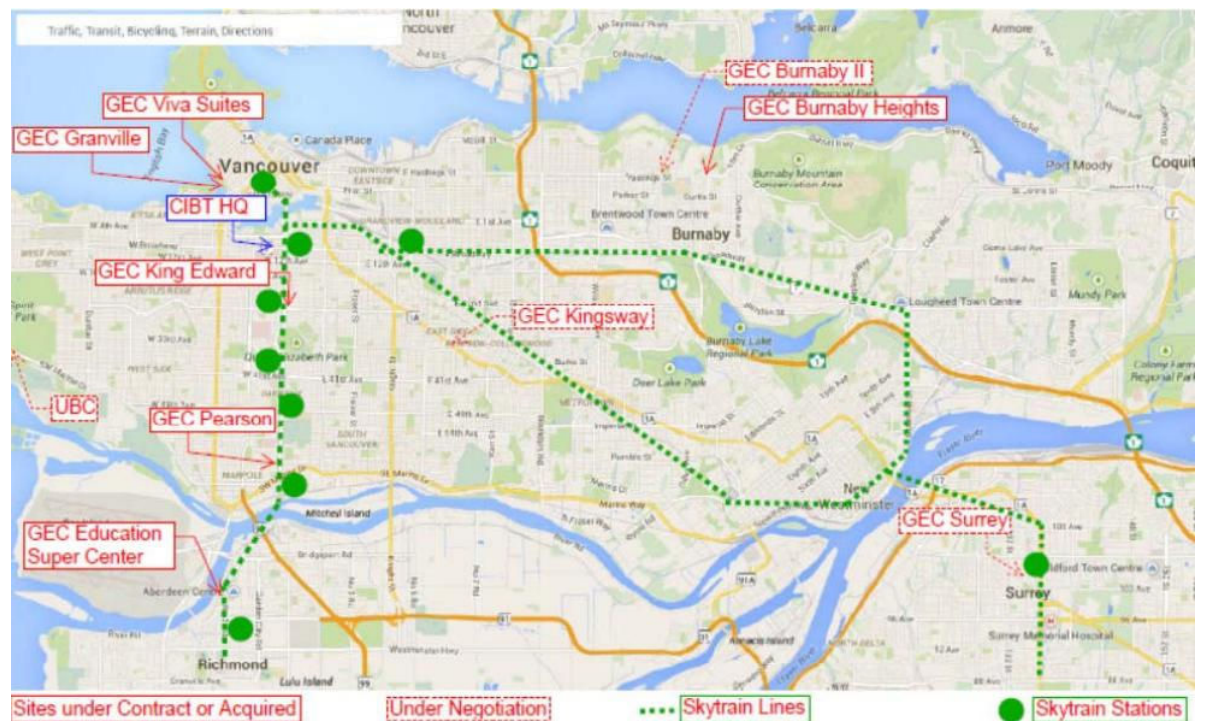


Source: Company

The table below shows a summary of the acquired projects and the projects under development, including management projections.

	Viva	Granville	Burnaby Heights	Pearson	West King Edward	Education Super Center	Total
Projected Annual Rental Income (Management Est.)	\$3.4M	\$2.9M	\$1.1M	\$4.9M	\$4.9M	\$12.9M	\$30.1M
CIBT Ownership	20%	20%	25%	38.50%	21.00%	20%	
CIBT Management Fee	8%	8%	8%	8%	8%	8%	
Purchase Price / Construction Costs	\$29.5M / \$6.5M	\$38M / \$0.5M	\$20.5M	\$43.8M	\$30.1M	\$170M	\$338M
Beds	220	270	84	330	300	840	2,044
Status	Operational	Operational	Under Construction (operational by Summer 2016)	Under Construction (operational by Nov 2016)	Under Construction (operational by July 2018)	In Planning Stages (expected completion in fall 2019)	

The map below shows the strategic locations of the properties within Greater Vancouver.



Source: Company

The following section presents an overview of the assets mentioned in the above table.

Viva

In January 2015, CIBT announced it partnered with an investor to jointly acquire Viva Suites Hotel (“Viva”), located in downtown Vancouver (within the core of the City of Vancouver) for \$29.6 million. The building, constructed in 1991, was originally a 17-storey long-stay luxury hotel. CIBT and its partner are now converting the luxury hotel into a building with up to 220 beds targeting students. Phases 1A and 1B of the renovation were

completed in July 2015 and January 2016, respectively, and 110 beds were made available for rental. Currently, all of these beds are occupied. **In Q1-2016 (quarter ended November 30, 2015), this project generated \$0.34 million in revenues based on 55 beds available at that time, with a gross margin of approximately 41%.** Phase 2 is expected to be completed by summer 2016 to add an additional 120 beds. The average rent per bed is approximately \$950 to \$1,050 per month. All of the rooms are fully furnished. **During our site visit earlier this year, we were shown several renovated rooms and were extremely impressed by their high-quality.**



Source: Company

The building also has the potential to generate revenues of approximately \$105k per year through retail and office space in the ground floor upon full occupancy.

The property has a mortgage totalling \$23.68 million at the end of FY2015. The mortgage has a term of 13 months and has an interest rate of 6.95% p.a. or prime + 3.95% p.a., whichever is greater, and 15% thereafter. The company is currently evaluating long - term mortgage options at rates below 5% p.a.

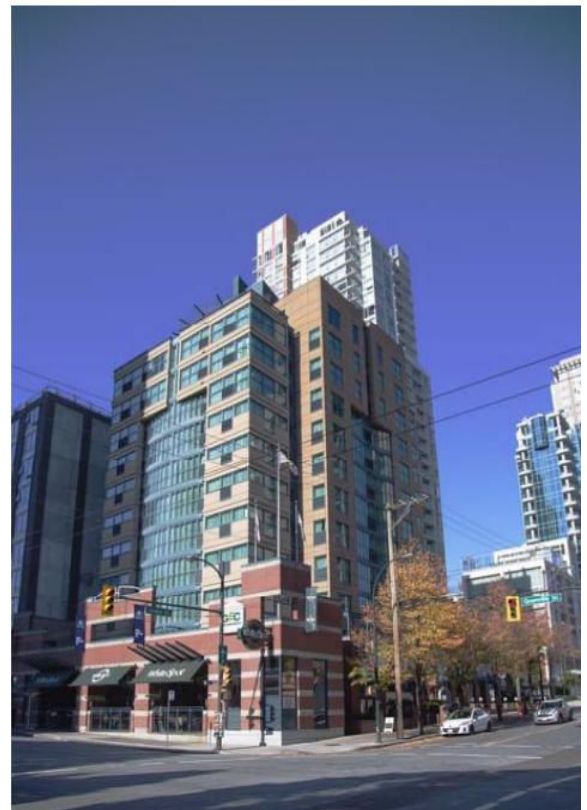
The total project cost including the purchase price and renovation cost is approximately \$36 million. **CIBT was paid an upfront structuring fee of \$0.9 million, which they used to attain 20% equity in the project.** We believe this is a very reasonable valuation as 20% equity in the project reflects a price of \$1.1 million (based on the acquisition price of \$29.55 million and mortgage amount of \$23.7 million). CIBT has also entered into a 20 year —

Granville

management contract for the project, which entitles them to an annual management fee of 8% of the gross income generated from the building.

Management estimates Net Operating Income (“NOI”) of \$2.4 million upon completion of renovation. **A cap rate of 4.5% will result in a valuation of approximately \$55 million, indicating strong potential for capital gains.** Our research indicates that capitalization rates of rental properties in the area range between 3% and 5%.

In November 2015, CIBT acquired a 19 year old operating hotel (Best Western Plus), located in downtown Vancouver, for approximately \$38 million. Just like Viva, management plans to convert this hotel into student housing for approximately 270 beds. The 12 storey building has a White Spot Restaurant on the ground floor, a conference room facility, jacuzzi, fitness center and other hotel amenities. **CIBT was paid an upfront structuring fee of \$1.8 million, which they used to attain 20% equity in the project.** CIBT has also entered into a 20 year management contract for the project, at 8% of the building’s gross income.



Source: Company

Details of the mortgage on the property are yet to be disclosed. The company expects to complete renovations by July 2016. Management estimates Net Operating Income (“NOI”) of \$2.6 million upon completion of renovations. **A cap rate of 4.5% will result in a**

Burnaby Heights

valuation of approximately \$58 million, much higher than the purchase price.

In December 2015, CIBT announced that it signed a purchase and sale agreement with a developer to purchase a condominium project in Metro Vancouver that is currently under construction for approximately \$21 million. The location of this project is in close proximity to Simon Fraser University, Capilano University, British Columbia Institute of Technology and Sprott Shaw College East Vancouver Campus. Management expects this 84 bed project to be completed by September 2016. CIBT earned a \$1.5 million structuring fee for a 25% equity interest, and a 20 year management contract, which entitles them to an annual management fee of 5%, plus a 3% student recruitment fee.



Source: Company

The company expects to complete renovations by September 2016. Details on this

Pearson

development are yet to be disclosed.

In May 2014, CIBT signed a Purchase and Sale Agreement with a Vancouver based developer to purchase three properties in the Greater Vancouver area. The project site is 5 minutes walking distance from the nearest subway (skytrain) station at the corner of Marine S.W Drive and Cambie street. The project is expected to have housing capacity for 330 students. The expected development budget of the project is \$44 million. In May 2014, the company announced that they have attracted an overseas investor to acquire a 60% interest in the project. This project is currently under development and management expects it to be operational by November 2016. Details on this development are yet to be disclosed.



Source: Company

According to the company, the valuation of this development has increased by \$7.6 million over the past 12 months, based on comparable transaction values in the area.

*West King
Edward*

In May 2015, CIBT signed a Purchase and Sale Agreement with a Vancouver developer to acquire two properties that are centrally located in Vancouver, approximately 300 feet from a Skytrain / Subway station located at the corner of West King Edward Ave and Cambie Street. The project is expected to be comprised of 42,000 net rentable square feet accommodating up to 184 student beds upon completion of development. The total project cost is approximately \$30 million. An independent investor has been brought in to fund this development. CIBT will earn a structuring fee of \$1.5 million for 20% equity, and a 20 year management contract at 8% of the gross income. This project is currently under development and management expects it to be operational by the summer of 2018.

*Education
Super Center*

This is CIBT's flagship project. In June 2015, the company announced that it signed a MOU (memorandum of understanding) with a developer (name undisclosed) to jointly develop the Education Super Center. The project site, owned by the developer, is a 2.51 acre waterfront property in Greater Vancouver. The plan is to rezone and develop the property into one office tower and two hotels (student housing) totaling approximately 327,000 sq. ft.

GEC's Education Super Center will be the first of its kind in North America, aggregating a number of multidiscipline public and private schools at one location, including dance schools, arts academy, language schools, colleges, and universities, supported by long and short-term stay hotels connected to the Education Super Center. The project is expected to have the capacity to provide housing for up to 800 students, while accommodating campus space for public and private educational institutions and office space for professional firms supporting international education. **The objective is to bring students, schools, and education service firms under one roof.** Such an arrangement will eliminate the need for students to commute daily to school. Also, school tenants will be able to reduce operating costs by utilizing the common areas such as the cafeteria, computer center, student lounges, auditoriums and library.

The total projected development cost of the project is \$170 million, of which, 70% is expected to be funded by debt. CIBT and the developer are currently planning to raise the remaining 30% (approximately \$50 million) through equity, in which, CIBT will hold a 20% equity interest.

As per the MOU, CIBT will earn a structuring fee of \$12 million in return, which will be used to earn up to 20% equity interest. CIBT will receive a 20 year management contract for the project for 8% of the gross income.

Management's ability to raise capital will depend heavily on its ability to pre-sell or pre-lease the units. A definitive agreement with the developer has yet to be signed. The project is subject to the completion of a re-zoning application process, and obtaining development/construction permits. The property is now zoned for industrial use.

The total cost of the above mentioned five projects, excluding the Education Super Center, is approximately \$170 million. Management expects to have approximately

Market Outlook

1,000 beds from five projects by the fall of 2016.

The two biggest factors, which we believe will be key for CIBT’s growth are – 1) flow of international students into Canada, primarily Vancouver, and 2) student housing supply in the Vancouver area.

Canada is one of the top destinations for international students. According to a study published by UNESCO (United Nations Educational, Scientific and Cultural Organization) in 2014, Canada ranked eighth in terms of international student inflow.

Country	Outbound International Students	Inbound International Students
United States	58133	740482
United Kingdom	27968	427686
France	62416	271399
Australia	10968	249588
Germany	117576	206986
Russian Federation	51171	173627
Japan	33751	150617
Canada	45509	120960
China	694041	88979
Italy	51236	77732

Source: UNESCO

The number of inbound international students to Canada has been growing every year, as shown in the table below. The table below shows the total number of international students to Canada, as well as the number of students from the top five source countries. As shown, China is by far the largest source country, and accounted for almost a third of total number of students.

Country of citizenship	2000	2001	2002	2003	2004	2005	2006	2007
China	12,242	22,024	31,284	37,437	39,951	40,018	39,990	41,113
India	2,208	2,957	4,476	6,168	6,677	7,151	7,462	7,925
S. Korea	15,802	20,752	23,982	25,900	26,695	27,594	29,548	30,670
France	6,465	6,923	6,412	6,541	6,675	6,952	8,125	9,005
Saudi Arabia	358	436	520	687	881	1,126	1,260	2,012
Total	122,672	145,968	158,137	164,489	168,602	170,447	172,356	179,124

Country of citizenship	2008	2009	2010	2011	2012	2013	2014	CAGR (%)
China	43,099	50,442	57,328	68,459	81,430	95,710	110,918	15.82705
India	8,283	11,680	20,278	27,336	32,242	34,882	38,891	21.07561
S. Korea	28,972	27,160	25,291	22,621	20,277	19,118	19,358	1.362325
France	9,377	10,356	11,360	12,711	14,746	16,482	19,035	7.464649
Saudi Arabia	4,463	8,413	12,267	14,181	13,933	13,958	13,677	27.48933
Total	184,155	204,023	225,338	248,765	275,816	304,811	336,497	

Source: Canada Immigration & Citizenship

The top two provinces of choice are Ontario and British Columbia (“BC”). Citizenship and Immigration Canada estimates that of the total number of international students, Ontario currently accounts for approximately 42%, while BC accounts for approximately 26%.

As shown in the table below, the representation of international students has been increasing on an annual basis in BC, from 4.8% of the total in 2011/2012, to 7.1% of the total in 2014/2015.

Student Headcount¹ by Institution by Fiscal Year
2011-12 to 2014-15

COLLEGES	Domestic Students				International Students ²				Total Student Headcount			
	2011-12	2012-13	2013-14	2014-15	2011-12	2012-13	2013-14	2014-15	2011-12	2012-13	2013-14	2014-15
COLLEGES Total	164,835	152,850	151,530	144,065	6,150	6,785	7,735	9,945	170,995	159,640	159,265	153,995
INSTITUTES												
British Columbia Institute of Technology	38,580	38,995	39,340	39,505	2,130	1,960	2,160	2,380	40,710	40,955	41,500	41,885
Justice Institute of British Columbia	32,465	26,730	27,685	25,335	200	210	115	100	32,670	26,940	27,805	25,435
Nicola Valley Institute of Technology	1,465	1,400	1,355	1,340	*		*	65	1,465	1,400	1,355	1,405
INSTITUTES Total	72,510	67,125	68,380	66,180	2,330	2,170	2,275	2,545	74,845	69,295	70,660	68,725
UNIVERSITIES (not including UBC, UVic, SFU and UNBC)												
Capilano University	13,580	13,910	13,335	11,585	785	810	855	995	14,365	14,720	14,190	12,580
Emily Carr University of Art and Design	4,115	3,835	3,655	3,310	350	370	405	470	4,465	4,205	4,065	3,775
Kwantlen Polytechnic University	18,440	18,290	18,035	17,605	1,400	1,655	1,930	2,140	19,840	19,945	19,970	19,745
Royal Roads University	3,260	3,335	3,110	3,060	135	260	365	485	3,400	3,595	3,475	3,545
Thompson Rivers University	21,445	21,630	23,620	23,150	2,560	2,545	2,605	2,610	24,005	24,175	26,225	25,760
University of the Fraser Valley	14,385	13,905	13,510	13,350	905	890	925	1,055	15,290	14,800	14,430	14,405
Vancouver Island University	15,940	15,635	15,765	14,485	1,540	1,695	1,930	2,020	17,480	17,325	17,690	16,505
UNIVERSITIES Total	91,165	90,540	91,030	86,545	7,675	8,225	9,015	9,775	98,845	98,765	100,045	96,315
Unique Headcount³	314,810	298,410	298,750	286,255	15,900	16,815	18,600	21,790	330,710	315,225	317,350	308,045

Source: BC Government

In 2010, international students spent \$1.8 billion on education related expenses, generating \$70 million of government tax revenue and creating 22,000 jobs in BC, according to the BC government. In 2012, these figures rose to \$2.3 billion and 25,500 jobs, respectively. In 2014, the BC government announced plans to increase the international student population by 50% by 2016. **This, along with Vancouver’s reputation as one of the world’s most “liveable” cities, clearly indicates that the student population in Vancouver, BC will continue to rise going forward.**

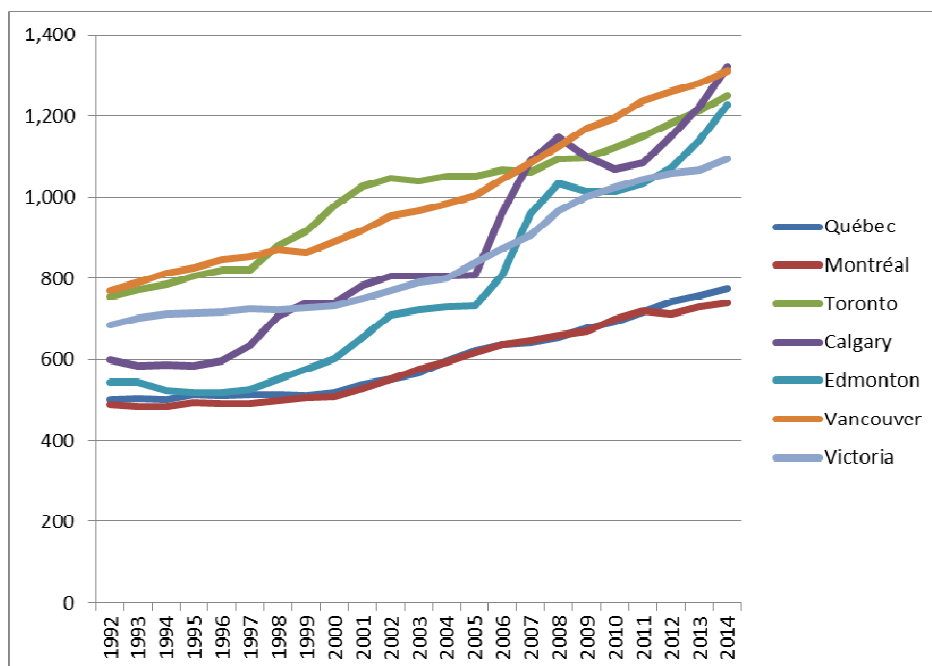
Housing prices and rental rates in Vancouver have increased considerably over the past few decades. The table below compares average real estate prices in 1981 and 2015 in

Vancouver, Toronto and Calgary. Housing prices in Vancouver exceed the other cities by a huge margin.

Canada	Vancouver	Calgary	Toronto
1981			
Average price shown in 2015 dollars (inflation-adjusted)	\$387,894	\$280,741	\$223,399
One-year mortgage rate at mid-year	19.75%	19.75%	19.75%
Monthly mortgage payment with 10% down based on inflation-adjusted prices	\$5,707	\$4,130	\$3,287
2015			
Average price	\$905,701	\$465,941	\$649,599
Five-year mortgage rate at mid-year	2.59%	2.59%	2.59%
Monthly mortgage payment with 10% down	\$3,777	\$1,943	\$2,729

Source: The Globe and Mail

Rental rates in Vancouver are among the highest in Canada. The chart below shows the average rental rates from 1992 to 2014 across major cities in Canada.



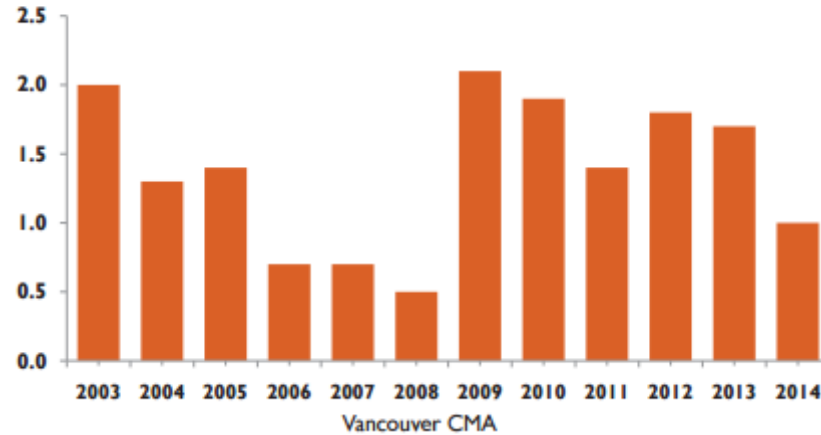
Source: Canada Mortgage and Housing Corporation

One of the primary reasons for the increase in rents is the declining vacancy rates, as shown

below.

Vacancy rates have been under three per cent for past decade

Purpose-built rental apartment average vacancy rate, per cent



Source: Canada Mortgage and Housing Corporation

In 2014, the vacancy rate in Vancouver was 1%, whereas it was 1.4%, and 1.6%, in Calgary, and Toronto, respectively.

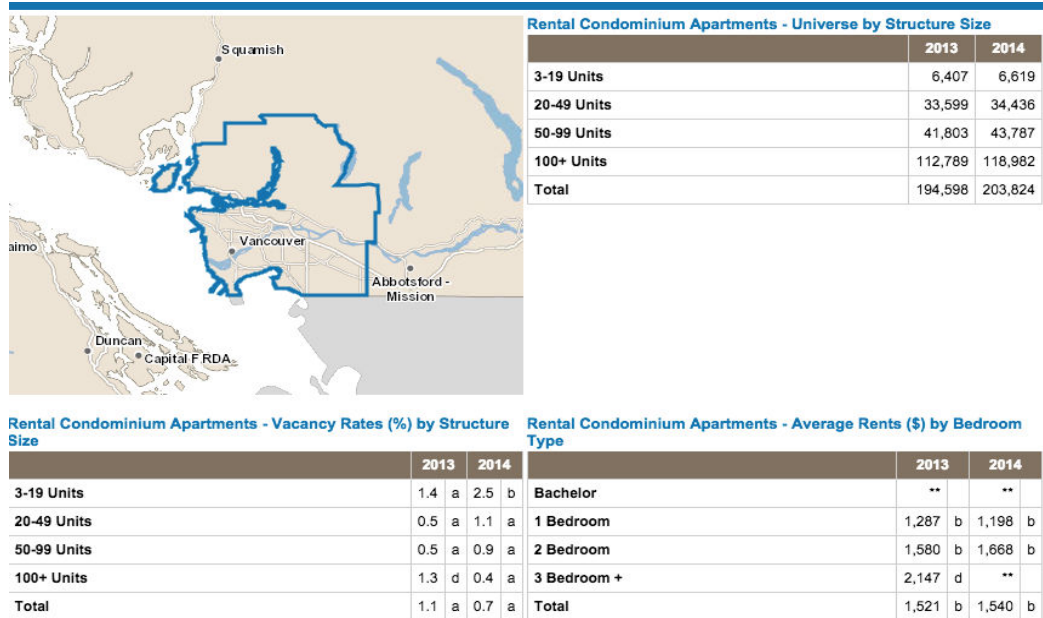
As of April 2015, the primary rental market listed a total of 106,598 private apartment units in the greater Vancouver region, with a total vacancy rate of 1.4%, down from 1.7% two years ago. In the same period, the average rent increased by 5.06%, from \$1,067 to \$1,121.

	Number of Private Apartment Units			
	Oct-13	Apr-14	Oct-14	Apr-15
Bachelor	11,726	11,847	11,929	12,021
1 Bedroom	66,169	66,545	66,368	66,877
2 Bedroom	25,410	25,682	25,628	25,863
3 Bedroom +	2,242	2,236	2,186	2,197
Total	105,547	106,310	106,111	106,958

	Private Apartment Vacancy Rates (%)				Private Apartment Average Rents (\$)			
	Oct-13	Apr-14	Oct-14	Apr-15	Oct-13	Apr-14	Oct-14	Apr-15
Bachelor	1.1 a	1.2 a	0.8 a	0.9 a	876 a	901 a	902 a	930 a
1 Bedroom	1.6 a	1.7 a	0.9 a	1.2 a	1,005 a	1,039 a	1,038 a	1,062 a
2 Bedroom	1.9 a	2.1 b	1.1 a	2.0 b	1,281 a	1,274 a	1,311 a	1,345 a
3 Bedroom +	2.7 a	4.4 d	1.7 a	**	1,498 a	1,397 b	1,542 a	1,369 b
Total	1.7 a	1.8 a	1.0 a	1.4 a	1,067 a	1,090 a	1,099 a	1,121 a

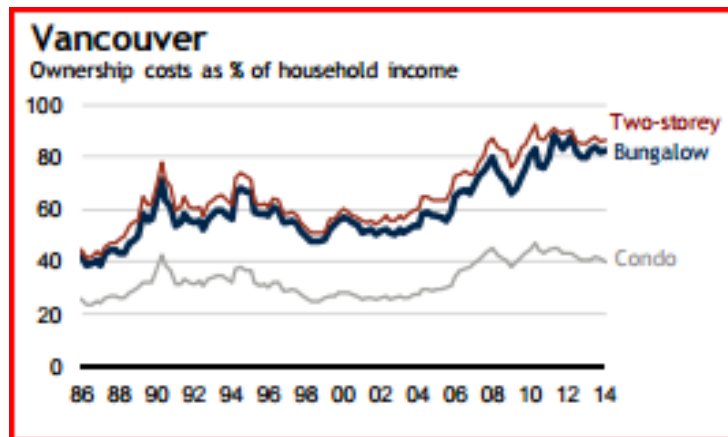
Source: CMHC

In 2014, the secondary rental market listed a total of 203,824 units in the greater Vancouver region, with a total vacancy rate of 0.7%, from 1.1% in the previous year. In the same period, the average rent across the region increased by 1.25%, from \$1,521 to \$1,540.



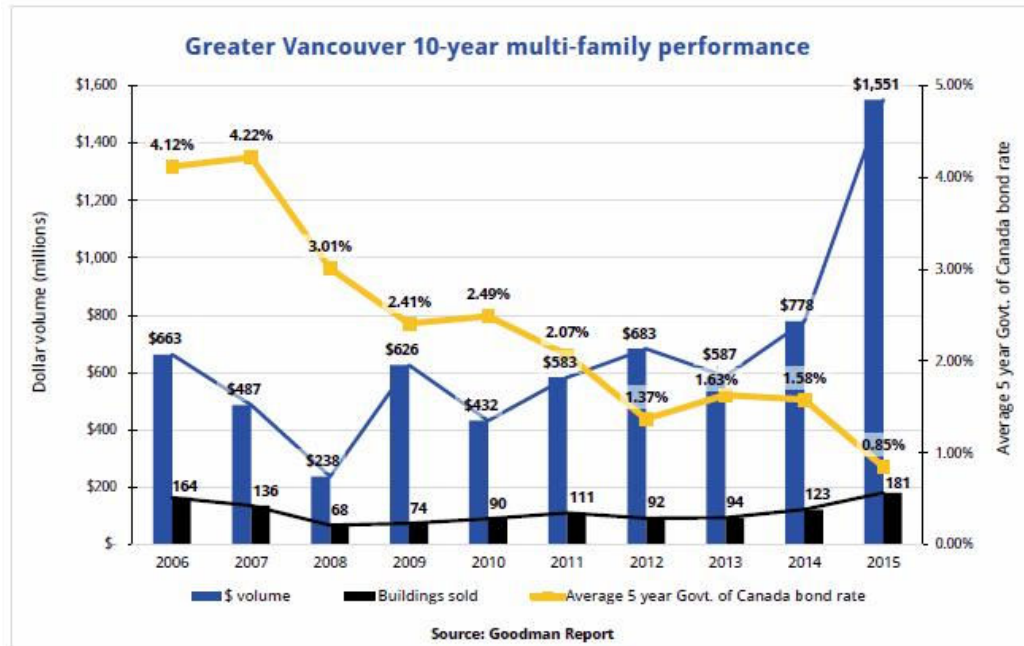
Source: CMHC

The following chart shows the cost of ownership of a house as a percentage of household income in Vancouver. As of 2014, this rate was above 80% in Vancouver, while Calgary and Toronto were at 35% - 40%, and 60%, respectively.



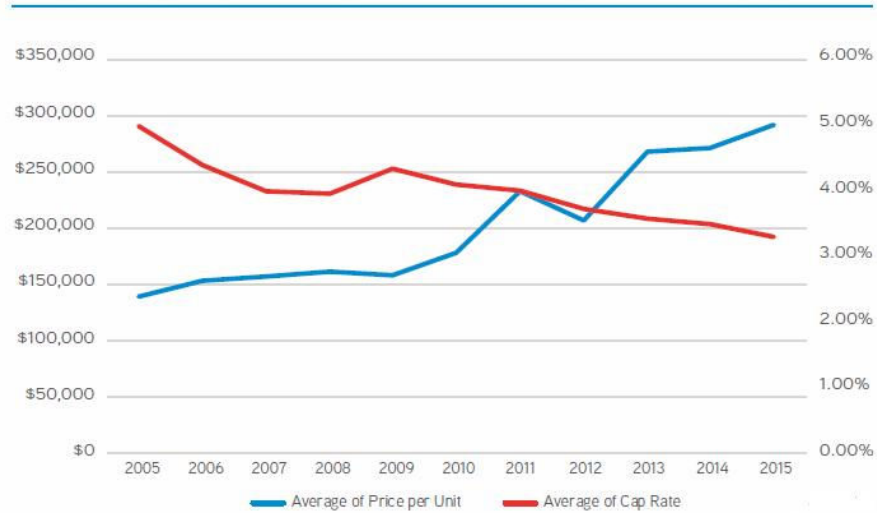
Source: Royal Bank of Canada

In 2015, there were 181 rental building transactions totaling \$1.55 billion, up from 123 (totalling \$778 million) in 2014.



The average capitalization rate for multifamily apartments declined, amid strong price growth, from approximately 5.0% in 2005, to 3.3% in 2015.

Metro Vancouver Average Price per Rental Unit vs. Average Cap Rate (2005 - 2015)



Despite the low capitalization rate, CIBT’s business model, as evident in the transactions so far, is to acquire an equity interest in projects at attractive valuations and generate higher ROIs.

In summary, an insufficient supply of rental units, and the high housing prices, we believe,

Financials





will continue to drive up rental rates in Vancouver. The recent weakness in the C\$, we believe, will be one of the key drivers of international student numbers in the near-term. **All the above, we believe, clearly indicates the need/demand for affordable housing in the Vancouver CMA, creating demand for CIBT’s projects.**

FY2015 (12 months ended August 31, 2015) revenues increased by 4% YOY, from \$30.92 million to \$32.18 million. The company reported revenues they received as development fees (related to GEC) of \$2.58 million. Excluding these revenues, the company generated \$29.60 million in revenues in FY2015, indicating that organic revenues actually declined by 4% YOY.

In Q1-2016 (quarter ended November 30, 2015), revenues increased by 31% YOY to \$9.36 million.

The following section presents an overview of the company’s key divisions and each division’s line of business.

The chart below summarizes the company’s key divisions and their revenues.

Education Subsidiaries		Recruitment Services	Student Housing
 			
<p>Chinese Associate Degree</p> <ul style="list-style-type: none"> • Beihai Int’l College • Qiancheng Students Services • Huajia ESL Training Center 	<p>Career & Technical Diploma</p> <ul style="list-style-type: none"> • Founded in 1903 / 13 Campuses across British Columbia • Overseas Career Preparatory Programs • Programs include: Co-op programs, Business Programs, Tourism and Hospitality Programs, Healthcare Programs, Child Care Programs, etc 	<p>Kindergarten to University</p> <p>100+ partners ; 42 countries</p>	<p>Global Education City (GEC)</p> <p>Targeting to build a portfolio of 10,000 beds within the next 5 years.</p>

	2014A	2015A	Q1-2015	Q1-2016
SSC + Ascenda				
Revenues	25,218,361	24,988,426	6,111,570	6,314,245
Gross Margins	61.1%	61.1%	59.64%	57.52%
CIBT				
Revenues	2,371,950	2,260,260	607,057	744,882
Gross Margins	44.6%	43.7%	40.06%	46.25%
IRIX				
Revenues	860,989	1,082,119	300,461	224,823
Gross Margins	79.7%	71.4%	68.43%	74.72%
Commissions + Referral Fees				
Revenues	843,022	619,077	104,888	295,607
Gross Margins	51.6%	59.6%	36.45%	18.95%
Global Education City				
Revenues (rental)	\$	647,046		341,787
Gross Margins		25.9%		40.74%
Global Education City				
Development fees	1,621,832	\$ 2,582,023		1,443,076
Overall Revenues	30,916,154	32,178,951	7,123,976	9,364,420
Overall Gross Margins	60.6%	62.6%	58.0%	61.8%

A brief description of each division and their performance follows:

Sprott Shaw College (“SSC”) and Ascenda School of Management (“ASM”)

SSC and the ASM accounted for 78% of the company’s revenues in FY2015.

Sprott Shaw College, established in 1903, operates career and vocational training colleges, language colleges, and a degree granting college in Canada. They are a well-recognized brand in Western Canada, and one of the largest private post-secondary institutions in Western Canada. SSC offers over 140 career-oriented programs through its 13 campuses in Canada. The most popular / attended programs include diploma programs, such as Business Administration, Practical Nurse, Health Care Assistant, Hotel Management, Construction Trades, Electrical, etc. SSC is the largest trainer of Practical Nurses in Canada.

Ascenda School of Management is a spin-off of Sprott Shaw’s business degree programs. Sprott Shaw started Sprott-Shaw Degree College in 2004. In 2013, Sprott-Shaw Degree College was renamed Ascenda School of Management. Its campus is in Vancouver. Ascenda offers accredited undergraduate degree programs, including Bachelor of Business Administration with a focus on International Business, Human Resources, Accounting, Marketing, etc. Ascenda has 160 students, and generated \$2.8 million in revenues and \$0.29 million in EBITDA in FY2015. As mentioned earlier, in December 2015, the company signed an agreement to sell ASM for \$5 million.

SSC and ASM combined had 2,666 students in FY2015 (2,116 students in FY2014 and 2,900 students in FY2013), with total revenues of \$24.99 million (FY2014 - \$25.22 million and FY2013 - \$26.31 million). The average revenue per student per year was \$9,373 in FY2015. The company attributed the decline in FY2015 to several industry related events, including a strike held by Canadian Immigration and Visa office workers which delayed the processing of student visas. **In Q1-2016, revenues increased by 3.3% YOY to \$6.31 million.**

CIBT China

The company's initial focus in China was on providing degree programs, such as MBA programs. Over the past few years, due to the increasing competition in the private degree programs space, CIBT started phasing out its programs. Its renewed focus is on lower tuition-fee mass market programs, such as career training programs related to business, hotel and tourism management, information technology, automotive training, English language training, etc.

CIBT China had 1,328 students at the end of FY2015 (FY2014 – 1,324 students and FY2013 - 1,573 students), with total revenues of \$2.26 million (FY2014 - \$2.37 million and FY2013 - \$2.77 million). The average revenue per student per year was \$1,702 in FY2015.

Revenues in FY2015 decreased by 4.7% YOY to \$2.26 million. The decline is due to the phasing out of several training programs, and the closing down of two ESL centers following the sale of KGIC. **In Q1-2016, revenues increased by 22.7% YOY to \$0.74 million.**

Global Education Alliance (GEA) Program - Commission Revenues

The company provides recruitment services to international students wishing to undergo kindergarten, primary, secondary school, and or university education in North America. CIBT's offices in Asia refers students to their own campuses at Sprott Shaw, or to their partner schools, including Columbia College, Glenlyon Norkfork School, Southpointe Academy of Greater Vancouver, Capilano University, Vancouver Community College, BCIT, etc. CIBT currently has partnerships with 100+ educational institutions in the US and Canada. GEA has 11 employees.

CIBT's revenue model here is collecting placement and trailing commissions (after successfully placing a student into a school and for each subsequent year the student is registered with the school). CIBT also offers preparatory programs in China to assist recruited students with their English language proficiency. In addition, through GEC, the company offers student housing, school excursion activities and other landing support services, thereby offering a one-stop-solution to parents seeking to send their kids to study in Canada.

This division generated \$0.62 million in FY2015, down 26.6% YOY. There were non-recurring revenue streams in FY2014, which was the primary reason for the decline in FY2015. **In Q1-2016, revenues increased by 182% YOY to \$0.30 million.**

Global Education City – The company started reporting rental revenues from the Viva project in FY2015. In FY2015, they reported \$0.65 million with a gross margin of 25.9%. **In Q1-2016, revenues were \$0.34 million, with a gross margin of 41%.**

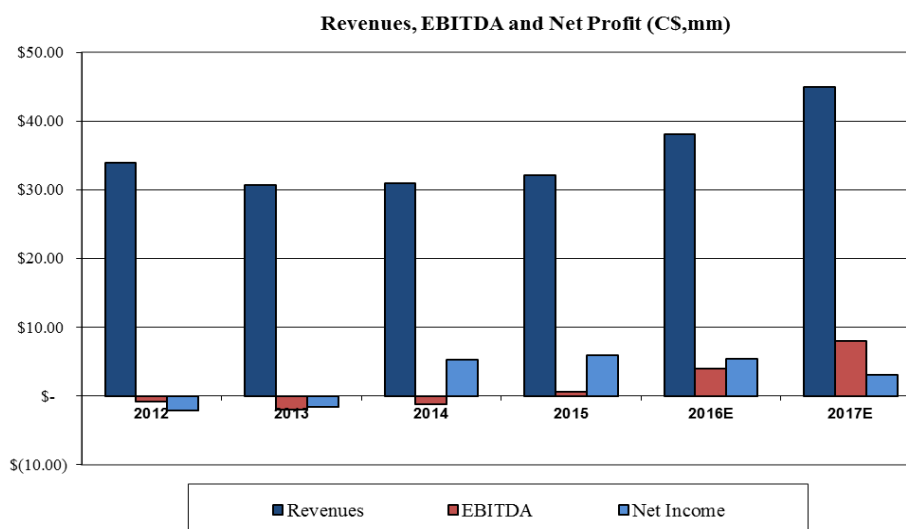
Our revenue forecasts for FY2016, and FY2017, are \$38.10 million and \$44.97 million, respectively.

Gross margins increased YOY from 60.6% to 62.6% in FY2015, primarily because the company did not report any direct costs for the \$2.58 million development revenues generated by the GEC. The following table shows margins:

Margins	2014A	2015A	Q1-2015	Q1-2016
Gross	60.6%	62.6%	58.0%	61.8%
EBITDA	-3.8%	2.1%	-7.3%	9.1%
EBIT	-7.4%	-0.9%	-10.6%	6.5%
EBT (normalized)	-7.0%	-1.8%	-9.4%	4.3%
Net (normalized)	-5.4%	-4.8%	-9.4%	4.3%

General and administrative (“G&A”) expenses in FY2015 decreased by 2.0% YOY to \$19.34 million. According to the company, the decrease was caused primarily by cost-cutting measures implemented in SSC’s operations. As a percentage of revenues (excluding the development fee revenues), G&A expenses dropped YOY from 67.3% to 65.3%.

EBITDA was \$0.69 million in FY2015 versus -\$1.18 million in FY2014. In Q1-2016, EBITDA was \$0.85 million up from -\$0.52 million in Q1-2015. The following chart shows a summary of the operating performance since 2012.



The company reported net income of \$6.00 million (EPS: \$0.09) in FY2015 versus \$5.31

million (EPS: \$0.08) in FY2014. After deducting non controlling interests, the company reported net income of \$1.04 million (EPS: \$0.02) in FY2015 versus \$5.16 million (EPS: -\$0.08) in FY2014. The net profit in FY2015 includes a one-time gain on change in property investment value of \$7.62 million, and the net profit in FY2014 includes a one-time gain on the sale of KGIC of \$7.03 million.

In Q1-2016, the company reported net income of \$0.39 million (EPS: \$0.01) versus a net loss of \$0.67 million (EPS: -\$0.01) in Q1-2015. After deducting non controlling interest, the company reported net income of \$0.51 million (EPS: \$0.01) versus a net loss of \$0.71 million (EPS: -\$0.01).

Our net profit forecast for FY2016 is \$5.45 million (EPS: \$0.08), and for FY2017, is \$3.16 million (EPS: \$0.05). Our FY2016 forecast includes a gain of \$3.76 million from the sale of ASM. We have not included any potential gain in property valuations, for conservatism.

The following table shows a summary of the company’s cash flows:

Summary of Cash Flows							
(C\$, mm)	2011A	2012A	2013A	2014A	2015A	Q1-2015	Q1-2016
Operating	-2.35	\$6.29	-1.80	-4.30	\$3.25	\$1.33	-\$0.15
Investing	-2.09	-\$3.54	-\$2.69	\$6.48	-\$33.58	-\$1.13	-\$1.82
Financing	-\$0.57	-\$1.24	\$0.63	-\$3.00	\$30.03	-\$0.49	\$0.38
Effects of Exchange Rate	-\$0.05	\$0.00	-\$0.55	-\$0.02	-\$0.11	-\$0.04	-\$0.00
Net	-\$5.06	\$1.51	-\$4.41	-\$0.85	-\$0.42	-\$0.32	-\$1.59
Free Cash Flows to Firm (FCF)	-\$4.18	\$2.76	-\$4.56	-\$0.68	-\$30.30	\$0.21	-\$1.97

Free cash flows (“FCF”) were -\$30.30 million in FY2015 versus -\$0.68 million in the same time period in the previous year.

At the end of Q1-2016, the company had \$0.92 million in cash. Working capital and the current ratio were -\$32.44 million and 0.29x, respectively. The working capital deficit was mainly due to the Viva take-out loan of \$24 million being a current portion of long-term debt, which is not a normal current liabilities item. The company also had \$11 million in deferred revenues. As mentioned earlier, the company will be replacing the Viva take-out loan with a long-term (25 or 30 year) mortgage shortly, which will improve the company’s working capital position.

Debt to capital increased from 14.08% at the end of FY2014, to 45% by the end of Q1-2016.

The following table shows the company’s cash and liquidity position.

Cash Flows

Balance Sheet

Stock Options and Warrants

Valuation and Rating

Liquidity & Capital Structure (C\$)	2013A	2014A	2015A	Q1-2016
Cash	\$3,746,406	\$5,022,012	\$2,514,195	\$923,008
Working Capital	-\$6,806,317	-\$3,780,054	-\$31,466,726	-\$32,444,480
Current Ratio	0.63	0.78	0.27	0.29
Debt/Capital	20.93%	14.08%	43.97%	44.92%
EBIT Interest Coverage	(29.5)	(19.3)	(0.5)	2.7

The company currently has 3.53 million options (weighted average exercise price – \$0.31), and 2.79 million warrants (weighted average exercise price – \$0.29) outstanding. Approximately 2.24 million options, and 0.34 million warrants, are currently in the money.

The following table shows our valuation of the company’s student housing division, assuming a 20% average equity interest in the projects. For our analysis, we used the average valuation metrics of comparable companies with portfolios of student housing projects.

	Ticker	EV / Revenue	EV / EBITDA	P / B
CHC Student Housing	TSXV: CHC	12.60		0.40
American Campus Communities	NYSE: ACC	10.30	21.60	1.70
Campus Crest Communities	NYSE: CCG	8.40	22.60	1.00
Education Realty Trust	NYSE: EDR	14.00	28.00	2.00
Average		11.33	24.07	1.28

	Projected Annual Revenues	Projected EBITDA	Projected Book Value
\$, millions	\$30.10	\$13.53	\$67.60
Fair Value of 20% Equity (\$, millions)	\$14.10	\$11.05	\$17.24
Average (\$, millions)	\$14.13		

Our Discounted Cash Flow (“DCF”) valuation of the Education Management business is \$33.90 million, or \$0.49 per share. Applying the industry average EV (enterprise value) to revenue ratio of 1.5x to our FY2016 revenue forecasts, we estimate that the Education Management business should be valued at \$42.50 million, or \$0.61 per share.

The following table shows a summary of our valuations on the Education Management and the Student Housing divisions.

Valuation	Fair Value	Fair Value per Share
Education Management		
* Discounted Cash Flow @ 10%	\$33,896,462	\$0.49
* EV / Revenue @ 1.5x	\$42,501,568	\$0.61
Average	\$38,199,015	\$0.55
Student Housing (GEC)		
	\$14,126,755	\$0.20
Fair Value Estimate	\$ 52,325,770	\$0.76

Based on our fair value estimate of \$0.76 per share, we reinitiate coverage on CIBT with a BUY rating, and a risk rating of 3 (Average).

Risks

The following risks may cause our estimates to differ from actual results (not exhaustive):

- Competition in the private education business in Canada is high.
- Real estate development and financing risks associated with GEC.
- The company’s profitability is highly dependent on the health of the student housing real estate market in the Greater Vancouver area.
- Although the company has been able to pursue cheap acquisitions in the past, there is no guarantee they will be able to continue to do so going forward.
- Exchange rate risks exist, but are not significant as revenues from China account for less than 10% of total revenues.
- Although topline (revenue) growth has been significant, the company has yet to achieve a track record of profitability.

Appendix

CONSOLIDATED STATEMENTS OF OPERATIONS					
(in C\$)					
	2013A	2014A	2015A	2016F	2017F
REVENUES					
Educational CIBT	29,085,965	27,590,311	27,248,686	26,582,147	25,937,611
Rental			647,046	4,267,509	9,225,000
Commissions + Referral Fees	667,669	843,022	619,077	637,649	656,779
Design and advertising IRIX	993,927	860,989	1,082,119	1,114,583	1,148,020
Development fees		1,621,832	2,582,023	5,500,000	8,000,000
Total Revenues	30,747,561	30,916,154	32,178,951	38,101,887	44,967,410
DIRECT COSTS					
Educational CIBT	12,243,618	11,132,629	11,006,541	10,762,809	10,523,313
Commissions + Referral Fees	192,991	407,655	250,400	257,929	265,667
Rental		-	479,257	2,517,830	5,073,750
Design and advertising IRIX	253,278	174,759	309,689	276,416	284,709
Development fees		459,586			
Total Direct Costs	12,689,887	12,174,629	12,045,887	13,814,985	16,147,439
Gross Profit	18,057,674	18,741,525	20,133,064	24,286,903	28,819,971
EXPENSES					
Stock-based compensation	81,527	15,992	15,909	18,837	22,232
General and administrative	19,963,023	19,729,134	19,335,528	20,302,304	20,809,862
Business development costs		180,000	90,000		
Total Expenses	20,044,550	19,925,126	19,441,437	20,321,142	20,832,094
EBITDA	(1,986,876)	(1,183,601)	691,627	3,965,761	7,987,877
Amortization	1,163,981	1,101,531	979,534	1,099,117	1,060,985
EBIT	(3,150,857)	(2,285,132)	(287,907)	2,866,645	6,926,892
Interest / Finance Cost	(106,839)	(118,438)	(556,106)	(1,183,754)	(3,768,182)
Interest Income	38,743	135,445	38,972		
Foreign exchange (loss) gain	97,914	98,720	227,728		
Loss on disposal of property, plant and equipment	142	(52,007)	(65,332)	-	-
EBT	(3,120,897)	(2,221,412)	(642,645)	1,682,891	3,158,709
Loss of investment in Associates			(9,360)		
Gain on Change of Property Fair Value			7,615,175		
Gain on sale of discontinued operations	319,540	7,030,395	-	3,764,395	-
Net Profit (Loss) before tax	(2,801,357)	4,808,983	6,963,170	5,447,286	3,158,709
Taxes	(1,216,267)	(503,978)	962,396	-	-
Net Profit (Loss)	(1,585,090)	5,312,961	6,000,774	5,447,286	3,158,709
EPS	-0.02	0.08	0.09	0.08	0.05
Non-controlling interests	(244,957)	(153,471)	(4,960,754)	(965,876)	(834,984)
Net Profit (Loss) to CIBT shareholders	-1,830,047	5,159,490	1,040,020	4,481,410	2,323,725
EPS	-0.03	0.08	0.02	0.07	0.03

CONSOLIDATED BALANCE SHEETS

(in C\$)

	2013A	2014A	2015A	2016F	2017F
ASSETS					
CURRENT					
Cash and short-term investments	3,746,406	5,022,012	2,514,195	7,527,390	8,798,089
Accounts receivable	6,636,480	7,323,999	7,975,499	9,038,591	10,667,241
Prepays and other	642,694	640,935	714,763	834,732	985,141
Inventory	378,020	389,758	441,150	441,150	441,150
Total Current Assets	11,403,600	13,376,704	11,645,607	17,841,863	20,891,621
Due from Related Parties	52,500	835,000	735,000	735,000	735,000
Property and Equipment	2,794,473	2,478,150	2,518,789	2,687,037	2,910,241
Intangible Assets	9,097,072	8,521,598	8,472,376	7,922,818	7,392,325
Goodwill	4,793,303	4,793,303	4,793,303	4,403,303	4,403,303
Future Income Tax	2,654,283	2,582,442	2,115,926	2,115,926	2,115,926
Deferred Cur. Dev. Costs & Other Assets	33,518	53,483	10,306		
Investment property			38,100,000	102,100,000	198,900,000
Refundable deposits + Investment		8,307,320	11,615,440	13,913,112	13,913,112
Assets held for Sale/Cash held in trust	11,709,872	748,200	660,010	131,963	131,963
Total Assets	42,538,621	41,696,200	80,666,757	151,851,021	251,393,491
LIABILITIES					
CURRENT					
Accounts payable and accrued liabilities	3,462,507	3,819,796	4,726,161	4,490,989	5,249,226
Deferred revenue	11,179,121	9,831,156	10,319,570	15,781,139	18,624,719
Lease obligation + provision	258,332	195,959	208,094	168,288	168,288
Income Tax Payable	153,564	155,491	176,259	177,822	177,822
Current portion of the long-term debt	2,931,495	450,000	23,675,080	-	-
Due to related parties	224,898	2,704,356	4,007,169	5,075,801	5,075,801
Total Current Liabilities	18,209,917	17,156,758	43,112,333	25,694,039	29,295,855
Lease Obligation	480,483	508,764	457,416	289,128	120,840
Long-term Debt		-	-	75,363,649	152,803,649
Loan Payable					
Liabilities held for Sale	8,070,697				
Future Income Tax Liabilities	1,062,690	479,918	972,246	972,246	972,246
SHAREHOLDERS EQUITY					
Share capital	48,182,766	48,836,693	49,115,490	49,115,490	49,115,490
Contributed surplus	5,917,043	5,214,064	5,884,084	7,270,677	7,292,909
Accumulated Comprehensive loss	111,923	158,247	381,698	381,698	381,698
Non-controlling interests	1,209,395	5,156,637	15,518,351	26,821,941	43,144,925
Deficit	(40,706,293)	(35,814,881)	(34,774,861)	(34,057,846)	(31,734,122)
Total shareholders' equity (deficiency)	14,714,834	23,550,760	36,124,762	49,531,960	68,200,901
Total Liabilities and Shareholders Equity	42,538,621	41,696,200	80,666,757	151,851,021	251,393,491

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in C\$)

	2013A	2014A	2015A	2016F	2017F
CASH FLOWS FROM OPERATING ACTIVITIES					
Net Profit (Loss) for the year	(1,585,090)	5,312,961	6,000,774	5,447,286	3,158,709
Adjusted for items not involving cash:					
- amortization	3,183,130	1,830,410	1,382,852	1,099,117	1,060,985
- stock-based compensation	81,527	15,992	15,909	18,837	22,232
- loss on disposal of property, plant and equipment	(142)	52,007	65,332	-	-
- (gain) loss on disposal of subsidiaries	-	(7,030,395)	-	-	-
-gain from changes in ownership investment interests	-	-	9,360	(3,764,395)	-
-bad debt provision	-	100,000	-	-	-
-development fees	-	(1,621,832)	(85,390)	-	-
-gain on fair value changes in investment properties	-	-	(7,615,175)	-	-
-finance fees	-	-	418,818	-	-
-future/current income tax provision	(1,208,172)	(510,931)	958,844	-	-
Funds From Operations	471,253	(1,851,788)	1,151,324	2,800,844	4,241,926
Net changes in non-cash working capital items	(2,268,852)	(2,449,894)	2,096,587	5,111,968	1,822,757
Discontinued Operations	-	-	-	-	-
NET CASH USED IN OPERATING ACTIVITIES	(1,797,599)	(4,301,682)	3,247,911	7,912,812	6,064,684
CASH FLOWS FROM INVESTING ACTIVITIES					
PP&E	(1,354,206)	(377,359)	(683,625)	(717,806)	(753,697)
Investment Properties	-	-	(289,042)	-	-
Deposits on real estate properties	-	(1,950,000)	(2,800,000)	-	-
Acquisitions	(1,407,350)	(411,718)	(29,777,937)	(64,000,000)	(96,800,000)
Disposal of business assets	2,421	6,356,931	-	-	-
Promissory Note Receivables	-	3,612,639	-	-	-
Restricted cash	66,513	(6,463)	(30,114)	-	-
Funds held in escrow/Cash held in trust	-	(748,200)	-	-	-
NET CASH USED IN INVESTING ACTIVITIES	(2,692,622)	6,475,830	(33,580,718)	(64,717,806)	(97,553,697)
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash from equity and debt issuances	-	485,752	1,137,952	-	-
Acquisition of the Company's shares into treasury, net	(389,520)	(818,874)	(283,358)	-	-
Advances (to) from related parties	195,981	208,758	1,441,003	-	-
Lease obligation repayments	(129,617)	(136,717)	(166,412)	(208,094)	(168,288)
Non controlling interest capital contribution	-	-	6,033,200	10,337,714	15,488,000
Non-controlling interest draws	(358,799)	(236,654)	(485,100)	-	-
Loan principal payments	(1,652,737)	(2,481,495)	(450,000)	-	-
Long-term debt advances	3,000,000	-	22,756,262	51,688,569	77,440,000
Deferred finance fees	(33,518)	(19,965)	43,177	-	-
NET CASH FROM FINANCING ACTIVITIES	631,790	(2,999,195)	30,026,724	61,818,189	92,759,712
Foreign Exchange / Others	(550,626)	(24,143)	(113,515)		
INCREASE IN CASH FOR THE YEAR	(4,409,057)	(849,190)	(419,598)	5,013,195	1,270,699
CASH, BEGINNING OF THE YEAR	7,964,476	3,555,419	2,706,229	2,514,195	7,527,390
CASH, END OF THE YEAR	3,555,419	2,706,229	2,286,631	7,527,390	8,798,089

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

Disclaimers and Disclosure

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